

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Traverse City Downtown Dev. Auth	County Grand Traverse
Fiscal Year End June 30, 2006	Opinion Date November 1, 2006	Date Audit Report Submitted to State December 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

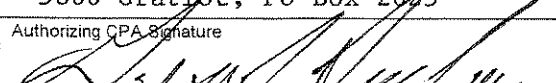
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989-799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Authorizing CPA Signature 		Zip 48605	License Number 1101007126
Printed Name Gerald J. Deslover, CPA			

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT
AUTHORITY**

**(A Discrete Component Unit of the
City of Traverse City, Michigan)**

Traverse City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2006**

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the
City of Traverse City, Michigan)**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 16, 2006

Board of Trustees
City of Traverse City Downtown Development Authority
City of Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the ***City of Traverse City Downtown Development Authority, a discrete component unit of the City of Traverse City, Michigan*** (the "Authority"), as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2006, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund, TIF 2 and TIF 97 Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

Management's Discussion and Analysis

As management of the *Downtown Development Authority* (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,501,343 (*net assets*). Of this amount, \$2,374,841 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,171,903.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,170,457, an increase of \$583,186 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Authority governmental activity is economic development. The Authority has no business-type activities.

The government-wide financial statements include only the Authority itself. The Authority has no legally separate component units for which the Authority is financially accountable.

The government-wide financial statements can be found on pages 6-7 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority only has governmental funds. The Authority does not maintain enterprise or fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all three funds, General Fund, TIF 2 and TIF 97 Special Revenue Funds, each of which are considered to be major funds.

The Authority adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 8-14 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-21 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$2,501,343 at the close of the most recent fiscal year.

Downtown Development Authority's Net Assets

	June 30	
	2006	2005
Governmental activities		
Current and other assets	\$ 2,530,073	\$ 3,169,912
Capital assets	<u>126,502</u>	<u>-</u>
Total assets	2,656,575	3,169,912
Other liabilities	<u>155,232</u>	<u>279,908</u>
Net assets		
Invested in capital assets	126,502	-
Unrestricted	<u>2,374,841</u>	<u>2,890,004</u>
Total net assets	<u>\$ 2,501,343</u>	<u>\$ 2,890,004</u>

By far the largest portion of the Authority's net assets (95 percent) reflects its unrestricted net assets, which

may be used to meet the government's ongoing obligations to citizens and creditors.

The remaining balance of the Authority's net assets (5 percent or \$126,502) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to citizens consequently; these assets are not available for future spending.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets.

Governmental activities. The Authority's net assets increased by \$1,171,903. Key highlights are as follows:

- Increase in net assets over prior year increased approximately \$200,000 attributed to increase in captured property taxes in the tax increment finance districts.

Downtown Development Authority's Changes in Net Assets

	June 30	
	2006	2005
Governmental activities		
Program revenues		
Charges for services	\$ 575,926	\$ 1,050,706
Operating grants	497,203	-
General revenues		
Property taxes	1,322,407	1,113,385
Unrestricted investment earnings	<u>38,932</u>	<u>13,216</u>
Total revenue	2,434,468	2,177,307
Expenses		
Economic development	<u>1,262,565</u>	<u>1,179,786</u>
Increase in net assets	1,171,903	997,521
Net assets – beginning of year – as restated	<u>1,329,440</u>	<u>1,892,483</u>
Net assets – end of year	<u><u>\$ 2,501,343</u></u>	<u><u>\$ 2,890,004</u></u>

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,170,457, an increase of \$583,186, in comparison with the prior year. Approximately \$1,169,000 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$230,710. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 49 percent of total general fund expenditures.

During the current fiscal year, the fund balance of the Authority's General Fund increased by \$47,749. This increase was attributed to actual expenditures being under the amended budget by approximately \$44,263.

The TIF 2 Special Revenue Fund has a total fund balance of \$338,437 which increased by \$404,943 during the year. The increase in fund balance was attributed to an increase in captured property taxes while minimal expenditures were incurred.

The TIF 97 Special Revenue Fund has a fund balance for the current year of \$599,703, which increased \$130,494. The increase in fund balance was attributed to an increase in funds received from the Brownfield Redevelopment Authority to reimburse expenditures occurred in prior year and an increase in captured property taxes.

General Fund Budgetary Highlights

During the year, General Fund revenues were over budgetary estimates by \$6,986. In addition, actual expenditures were under budgetary estimates by \$44,263. As a result, the fund balance increased by \$47,749 which was more than the budgeted estimate of \$(3,500).

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental type activities as of June 30, 2006, amounted to \$126,502 (net of accumulated depreciation). This investment in capital assets is work in progress, which consists of preliminary architectural and design work on a proposed parking deck on West Front Street.

Additional information on the Authority's capital assets can be found on page 18 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2006-07 fiscal year:

- Projected revenues from the contractual agreement for management services of the State Theater are expected to decrease in the upcoming fiscal year.
- Authority anticipates expenditures up to \$20,000 for a Downtown Market Analysis.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Executive Director, Bryan Crough, 303 State Street, Traverse City, Michigan.

FINANCIAL STATEMENTS

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,260,835
Accounts receivable	1,267,631
Prepaid expenses	1,607
Capital assets	<u>126,502</u>
Total assets	<u>2,656,575</u>
Liabilities	
Accounts payable	105,478
Accrued expenses and other liabilities	1,238
Non-current liabilities	
Due in more than one year	<u>48,516</u>
Total liabilities	<u>155,232</u>
Net assets	
Invested in capital assets	126,502
Unrestricted net assets	<u>2,374,841</u>
Total net assets - unrestricted	<u><u>\$ 2,501,343</u></u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Activities
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating grants</u>	
Discrete component unit				
Economic development	<u>\$ 1,262,565</u>	<u>\$ 575,926</u>	<u>\$ 497,203</u>	\$ (189,436)
General revenues				
Property taxes				1,322,407
Unrestricted investment earnings				<u>38,932</u>
Total general revenues				<u>1,361,339</u>
Change in net assets				1,171,903
Net assets, beginning of year, as restated				<u>1,329,440</u>
Net assets, end of year				<u>\$ 2,501,343</u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Balance Sheet
Governmental Funds
June 30, 2006

		Special Revenue Funds		Total
	General Fund	TIF 2 Fund	TIF 97 Fund	Governmental Funds
Assets				
Cash and cash equivalents	\$ 208,104	\$ 346,201	\$ 706,530	\$ 1,260,835
Accounts receivable	14,452	-	1,253,179	1,267,631
Prepaid expenditures	1,607	-	-	1,607
Due from other funds	14,912	-	-	14,912
Total assets	\$ 239,075	\$ 346,201	\$ 1,959,709	\$ 2,544,985
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 5,520	\$ 308	\$ 99,650	\$ 105,478
Accrued expenses and other liabilities	1,238	-	-	1,238
Due to other funds	-	7,456	7,456	14,912
Deferred revenue	-	-	1,252,900	1,252,900
Total liabilities	6,758	7,764	1,360,006	1,374,528
Fund balances				
Reserved for prepaid expenditures	1,607	-	-	1,607
Unreserved				
Undesignated	230,710	338,437	599,703	1,168,850
Total fund balance	232,317	338,437	599,703	1,170,457
Total liabilities and fund balances	\$ 239,075	\$ 346,201	\$ 1,959,709	\$ 2,544,985

Continued.....

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of the Traverse City, Michigan)

Balance Sheet
Governmental Funds
June 30, 2006

**Reconciliation of fund balances on the balance sheet for governmental funds to
net assets of governmental activities on the statement of net assets**

Fund balances	\$ 1,170,457
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Add: capital assets	126,502
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	
Add: deferred revenue	1,252,900
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: accrued compensated absences	<u>(48,516)</u>
Net assets of governmental activities	<u>\$ 2,501,343</u>
	Concluded

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

		Special Revenue Funds		Total
	General Fund	TIF 2	TIF 97	Governmental
		Fund	Fund	Funds
Revenues				
Property taxes	\$ 66,425	\$ 483,941	\$ 772,041	\$ 1,322,407
Local grant revenue	15,000	-	-	15,000
Reimbursements	399,691	-	143,000	542,691
Rental income	33,235	-	-	33,235
Interest income	5,935	11,806	21,192	38,933
Total revenues	520,286	495,747	936,233	1,952,266
Expenditures				
Salaries	305,628	-	-	305,628
Fringe benefits	83,500	-	-	83,500
Office supplies and utilities	24,336	548	2,564	27,448
Professional services	40,237	86,856	210,231	337,324
Travel, promotion and conferences	7,359	-	-	7,359
Repairs and maintenance	6,201	-	-	6,201
Rentals	3,669	-	-	3,669
Contributions to other governments	-	-	556,644	556,644
Interest expense	-	3,400	-	3,400
Capital outlay	1,607	-	36,300	37,907
Total expenditures	472,537	90,804	805,739	1,369,080
Net change in fund balances	47,749	404,943	130,494	583,186
Fund balances (deficit), beginning of year	184,568	(66,506)	469,209	587,271
Fund balances, end of year	\$ 232,317	\$ 338,437	\$ 599,703	\$ 1,170,457

Continued....

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

**Reconciliation of the statement of revenues, expenditures and changes in
fund balances for governmental funds to the statement of activities**

Net change in fund balances	\$ 583,186
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Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense.

Add: capital outlay	126,502
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	482,203
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Deduct: increase in accrued compensated absences	<u>(19,988)</u>
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Change in net assets	<u>\$ 1,171,903</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
General Fund
For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 65,800	\$ 65,800	\$ 66,425	\$ 625
Local grant revenue	15,000	15,000	15,000	-
Reimbursements	396,000	396,000	399,691	3,691
Rental income	31,000	31,000	33,235	2,235
Interest income	1,500	5,500	5,935	435
Total revenues	509,300	513,300	520,286	6,986
Expenditures				
Salaries	346,000	340,400	305,628	(34,772)
Fringe benefits	82,900	88,500	83,500	(5,000)
Office supplies and utilities	25,100	27,200	24,336	(2,864)
Professional services	58,600	39,500	40,237	737
Travel, promotion and conferences	23,100	9,200	7,359	(1,841)
Repairs and maintenance	6,400	6,500	6,201	(299)
Rentals	3,100	3,500	3,669	169
Capital outlay	2,000	2,000	1,607	(393)
Total expenditures	547,200	516,800	472,537	(44,263)
Net change in fund balance	(37,900)	(3,500)	47,749	51,249
Fund balance, beginning of year	184,568	184,568	184,568	-
Fund balance, end of year	\$ 146,668	\$ 181,068	\$ 232,317	\$ 51,249

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 2
For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 479,100	\$ 479,100	\$ 483,941	\$ 4,841
Interest income	3,500	3,500	11,806	8,306
Total revenues	482,600	482,600	495,747	13,147
Expenditures				
Office supplies and utilities	800	800	548	(252)
Professional services	104,700	109,200	86,856	(22,344)
Interest expense	3,400	3,400	3,400	-
Total expenditures	108,900	113,400	90,804	(22,596)
Net change in fund balance	373,700	369,200	404,943	35,743
Fund balance (deficit), beginning of year	(66,506)	(66,506)	(66,506)	-
Fund balance, end of year	\$ 307,194	\$ 302,694	\$ 338,437	\$ 35,743

The accompanying notes are an integral part of these financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 97
For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 765,200	\$ 772,000	\$ 772,041	\$ 41
Reimbursements	137,000	143,000	143,000	-
Interest income	4,000	20,700	21,192	492
Total revenues	906,200	935,700	936,233	533
Expenditures				
Office supplies and utilities	2,100	2,100	2,564	464
Professional services	85,000	92,000	210,231	118,231
Contribution to other governments	557,250	557,150	556,644	(506)
Capital outlay	15,000	36,300	36,300	-
Total expenditures	659,350	687,550	805,739	118,189
Net change in fund balance	246,850	248,150	130,494	(117,656)
Fund balance, beginning of year	469,209	469,209	469,209	-
Fund balance, end of year	\$ 716,059	\$ 717,359	\$ 599,703	\$ (117,656)

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Discrete Component Unit of the City of Traverse City, Michigan)

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Downtown Development Authority (the "Authority"), a discrete component unit of the City of Traverse City (the "City"), was created in September 1978 by the City Commission pursuant to Act No. 197 of the Public Acts of 1975 of the State of Michigan. It operates through a Board of Trustees (the "Board") consisting of the Mayor of the City of Traverse City and eleven members approved by the City Commission. The purposes of the Authority are to correct and prevent deterioration of the Downtown Development District, encourage historic preservation, create and implement development plans, and promote economic growth.

The Authority is a discrete component unit of the City because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

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Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *TIF 2 and TIF 97 Special Revenue Funds* account for financial resources that are legally restricted for activities within specific districts of the downtown development authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Capital Assets – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported as the City's capital assets.

Accrued compensated absences - Employees are granted vacation and sick leave in varying amounts based on length of service. Annually unused vacation is reduced to a maximum of five weeks. Sick leave accumulates and is paid to employees at the time of retirement at one-half of total days accumulated up to a maximum of 120 days (60 paid days). The estimated amount due to employees as of June 30, 2006 is accrued in the government-wide financial statements.

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Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Budgetary Information – The General and special revenue funds are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds. The budget is then adopted by the Authority's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations. Professional services were reimbursed from the TIF 2 and TIF 97 in the amount of \$25,000 each, to the City's General Fund.
- The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing board is function level, which is the level at which expenditures may not legally exceed appropriations.

For the year ended June 30, 2006, the TIF 97 Special Revenue Fund exceed appropriations by \$118,189. These over expenditures were funded by excess revenues.

2. CASH AND CASH EQUIVALENTS

The Authority's cash and cash equivalents are considered to be cash on hand and demand deposits with a bank.

The Authority is authorized to invest in the same types of investments as the City.

The Authority's cash and cash equivalents are comprised of bank deposits held with a financial institution and had a balance of \$1,260,785 and petty cash of \$50 at June 30, 2006.

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,325,343. \$1,225,343 was subject to custodial credit risk because it is uninsured and uncollateralized.

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3. RECEIVABLES

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. This deferred revenue consists of taxes that will be captured in the future by the Brownfield tax districts to reimburse for costs incurred in this and past fiscal years for economic development. At the end of the current fiscal year, the various components of deferred revenue amounted to \$1,252,900. The remaining receivable amount of \$14,731 will be collected within one year.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated –				
Construction in progress	\$ -	\$ 126,502	\$ -	\$ 126,502

5. INTERFUND PAYABLES AND RECEIVABLES

The composition of interfund balances is as follows as of June 30, 2006:

<u>Due From</u>	<u>Due To</u>
	General Fund
Special Revenue Funds	
TIF 2	\$ 7,456
TIF 97	<u>7,456</u>
	<u>\$ 14,912</u>

Amounts represent administrative expenses payable to the General Fund from the TIF 2 and TIF 97 special revenue funds.

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6. NON-CURRENT LIABILITIES

Changes in non-current debt consist of the following:

	<u>Balance</u> <u>07/01/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/06</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$ 28,528	\$ 38,514	\$ (18,526)	\$48,516	\$ -

Compensated absences are generally liquidated by the General Fund.

7. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County. Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. The taxable value for real and personal property in the Downtown Development Authority for the 2005 levy is \$36,312,259. The Authority's general operating tax rate for fiscal year 2005-06 was 1.8173 mills.

Property tax revenue for the TIF's, which are included in the Downtown Development Authority, is derived pursuant to two tax increment financing agreements, TIF 2 and TIF 97, between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing districts. The City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Grand Traverse County. Property tax revenue is recognized when levied in the government-wide financial statements, and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the tax increment financing authority districts to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1985 for TIF 2 (\$3,089,321) and 1997 for TIF 97 (\$32,860,088). The base year on other properties is determined by the date of entry into the district. The fiscal year 2005-06 captured taxable value for TIF 2 is \$18,523,839 and TIF 97 is \$29,586,714.

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8. RENTAL AND REIMBURSEMENT INCOME

The Authority entered into two contracts, one from September 1, 2004 to August 31, 2005 and another from September 1, 2005 to August 31, 2006 with the Downtown Traverse City Association (a non-for-profit organization). The Authority provides office space and administrative services to the association for an annual fee of \$45,840 and \$47,215, respectively, payable in equal monthly installments of \$3,820 and \$3,935. Income under these contracts for the year ended June 30, 2006 was \$46,990.

The Authority entered into a contract with the City Opera House in October 2003 whereby the term of the agreement is indefinite, but may be terminated by the Authority for any or no reason upon 90 days prior written notice. Under the terms of this agreement the Authority agrees to operate, manage and maintain the Opera House at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2006 was \$26,496.

The Authority entered into a contract with the State Theatre Group in March 2004 whereby the term of the agreement is indefinite, but may be terminated by either party for any or no reason upon 60 days prior written notice. Under the terms of this agreement the Authority agrees to provide administrative staff support to market, advertise and promote the State Theatre Group in a manner consistent with the goals of the organization at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2006 was \$2,909.

The Authority entered into a contract on June 19, 2003 with the City of Traverse City in which the Authority will operate and manage the Larry C. Hardy Parking Deck for an annual fee of \$205,200 payable in equal monthly installments of \$17,100. Income under this contract for the year ended June 30, 2006 was \$209,802.

9. RISK OF LOSS

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is covered for these risks through the City of Traverse City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Insurance Fund and commercial health insurance.

10. PRIOR PERIOD ADJUSTMENT

Beginning net assets in the Statement of Activities was adjusted by \$1,560,564 to correct a prior year error in recognition of receivables. Receivables were recognized as they were being billed to the Brownfield Redevelopment Authority instead of when they were being determined eligible for reimbursement by the Brownfield Redevelopment Authority Board.

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11. SUBSEQUENT EVENT

Parking deck bond issue

The City of Traverse City along with the Downtown Development Authority proposed a bond issue not to exceed \$16 million to construct a new parking deck on West Front Street. The bond issue was to be repaid through the tax increment revenue captured dollars by the Traverse City Downtown Development Authority and Brownfield Redevelopment Authority. The citizens of the City of Traverse City petitioned the City to take the bond issue to the vote of the people, and on August 8, 2006 the voters rejected the proposed bond issue.

As of June 30, 2006 the TIF 97 fund incurred preliminary capital costs of \$126, 502, which are recorded as capital assets in the Statement of Net Assets.

Brownfield receivables

It was determined that \$1,253,264 in expenses billed for the TIF 97's Park Street and \$307,300 in expenses billed for TIF 2's River's Edge Streetscapes and Riverwalk projects, respectively, were not yet approved by the Brownfield Redevelopment Authority as of fiscal year end. These amounts were excluded from the receivables, which reflect the actual amount approved by the Brownfield Redevelopment Authority Board.

Subsequent to fiscal year end, the Brownfield Authority Board approved and determined these expenses eligible for reimbursement.

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